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USE OF FINANCIAL INFORMATION AND THE FINANCIAL SYSTEM

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Abstract

This paper gives an overview of the different clients of the financial system and how their demands for information may influence its development. As an operating unit and a ‘prime user’ of the financial system we should be in the driving seat to ensure the scarce resources are used and managed in the best possible way. This paper focuses on the importance of a correct use of the financial system, awareness of its functionalities and the importance of knowing potential deviations as soon as possible while one is still able to influence the final cost. It finishes by underscoring the importance of letting our requests be heard when the financial system is developed.

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1 INTRODUCTION

A lot of activities have been outsourced at CERN and in the ST division. This has changed the profile of the personnel, more and more highly qualified personnel having an administrative/supervisory role. Outsourcing has been done to reduce the costs as well as to change the cost structure ('making fixed costs variable': of course in the long run all costs are variable). The resources are scarce and one has to manage with less each year. This paper tries to give a small introduction to the financial system at CERN and how a better use and how we by expressing our needs may change the financial system, and how rules and procedures may get a better cost control.

2 CLIENTS OF THE FINANCIAL SYSTEM

Figure 1 gives an overview of the different clients of the financial system.

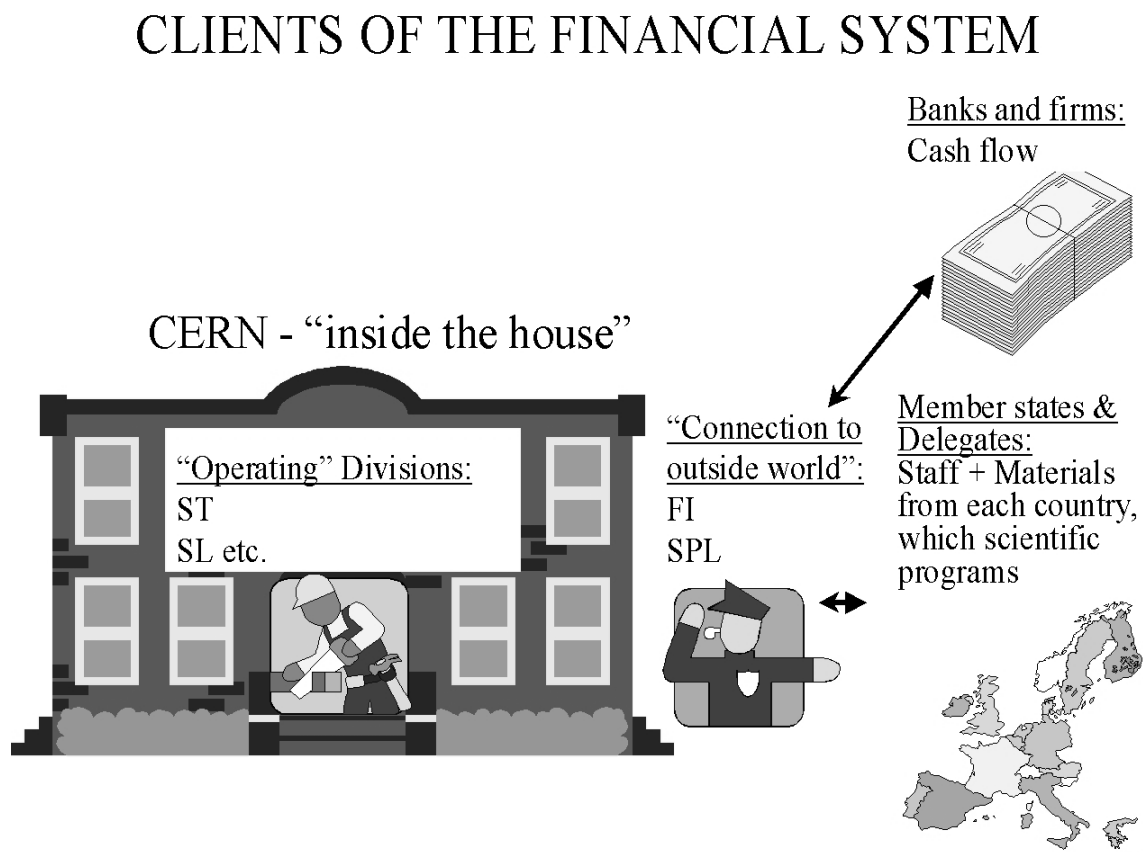


Figure 1: Clients of the financial system.

The financial system in a firm as well as at CERN is developed to meet the requests of the clients. The clients' position and importance will decide how the financial system is developed. CERN would not exist without funding from the Member States. Therefore the Member States and their delegates' requests (or sometimes even demands) for information have an extreme importance at CERN.

Certain rules and procedures have been established at CERN to ensure a balance of each Member State contribution to CERN and the number of staff positions as well as the buying of materials from each country. One tries **not** to let this influence the qualification of the personnel or the costs at CERN.

If CERN has to choose between two equally qualified candidates for a staff position and one comes from a poorly balanced country the last one is most likely to be chosen. Concerning contracts CERN has rules (for some types of contract) making it possible for a firm from a poorly balanced country to align its offer according to the best offer, thereby being awarded the contract (if all other conditions are equal).

The Finance division and the SPL division are the connection lines between CERN and the outside world. The strong requests from the delegates concerning financial information have a strong influence on the development of the financial system.

3 DIMENSIONS IN THE FINANCIAL SYSTEM

One often talks about dimensions in a financial system. By this is meant in how many ways one may divide or group the costs.

Example: You are responsible for a cost centre and you would like an overview of the costs you have incurred for each activity (called PPA, Programme Project Activity) and how much you have bought from each country. This is an example of two dimensions; the information may be retrieved from BHT (Budget Holder's Toolkit).

Code 54012 Photocopies

PPA : Country: (Amounts in kCHF)

CH DE FI JP NL Internal

Expenditures (CERN) Total

$$\text{General services (TGS)} \quad 5 + 3 + 1 + 6 + 1 + 58 = 74$$

The information that interests the delegates is how much we have spent and intend to spend (the budget) on each type of activity, and how much we have bought and intend to buy (forthcoming calls for tender and approvals of contracts) from each Member State.

This and a lot of other information may be retrieved from BHT and CFU (Contract Follow Up).

4 HISTORY OR FUTURE?

WHAT HAS HAPPENED OR WHAT MAY/WILL HAPPEN?

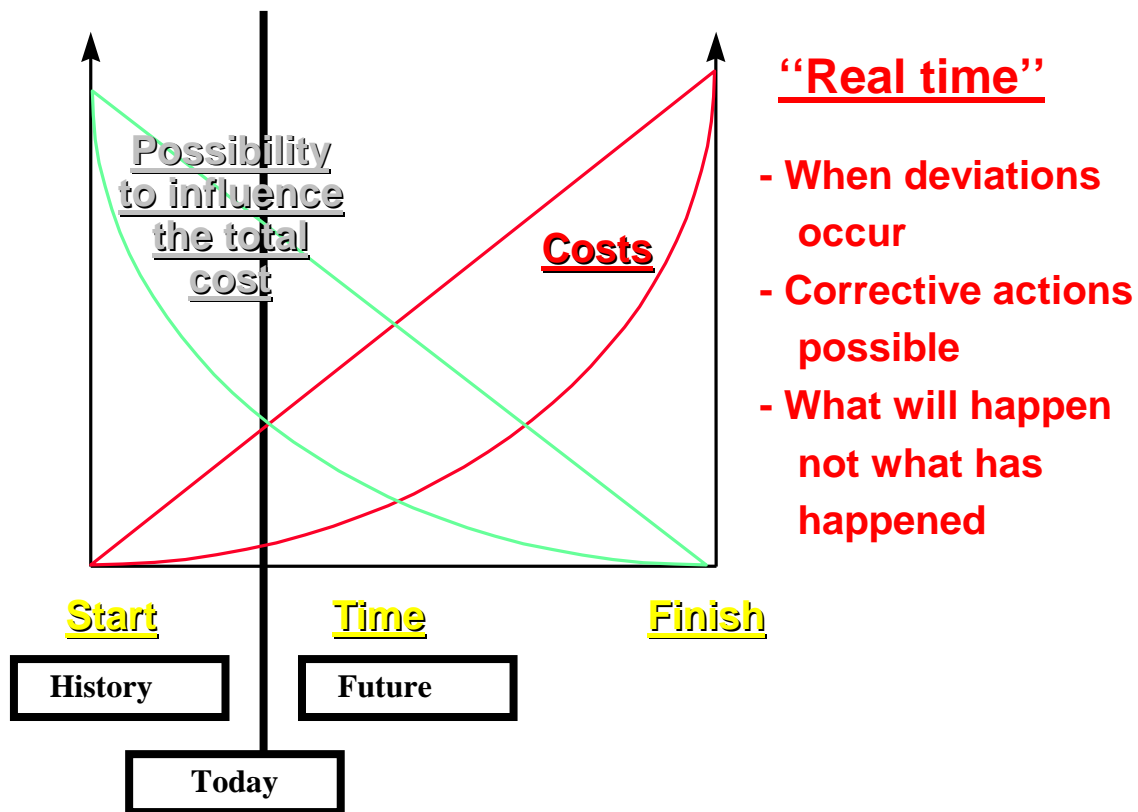


Figure 2: The importance of time in a project.

Figure 2 shows graphically the importance of time and of being aware of potential deviations at an early stage in a project. Budget management is not just to pass on information about what has happened, but also to give a forecast of the future and take decisions: How may an undesired development be hindered ? (Example: Negotiate inside the envelope of the contract, change contractor, change technical solution, request extra funding, etc.)

5 BETTER BUDGET MANAGEMENT

5.1 Choose dimensions to follow up

How do I best follow up my budget? Do I have a couple of main contracts where practically all costs are allocated? Or do I buy ‘ad hoc’ and follow up the firms? Or am I in charge of a project and therefore follow up the activities? Which costs are more or less fixed and which may I influence?

These questions may determine which dimensions you would like to follow up. Therefore, you should be sure that the dimension already exists, and if not, create a new

dimension by asking your DPO (Divisional Planning Officer). (You may add several new cost centres, or create projects and sub-projects, or you may create sub-activities or use the activity codes.)

5.2 Ordering according to the dimension

If you have divided your project into several sub-projects or you have chosen to follow up the activity, be sure that you use the correct sub-project or activity code when ordering. Overspending is allowed as long as the total budget is not exceeded. Looking for a budget code with enough money to cover something is not a good solution: you lose a correct view of the costs. It is better to make a budget transfer or balance the account by asking the section leader, group leader or DPO if a balance may be achieved on a global level or if extra funding may be requested.

5.3 Be aware of the functionalities in EDH-BHT

A lot of information is available with EDH and BHT. The possibilities of retrieving information are enormous. One may very easily be overwhelmed and therefore just stick to one or two reports. Example: Summary and all transactions for a cost centre. There are however a lot of other functionalities that may be useful. A very interesting one that still seems to be unexplored is activity code. When you are in charge of a budget code you may divide the budget into several activities. Each time you order with EDH you enter the activity code. Afterwards you are able to retrieve this information in BHT, namely how much of your budget you have spent on each activity. One reason for this may be that an 'activity code' in EDH is called a 'destination code' in BHT. So even if they are just the same it may create some confusion.

5.4 Letting our needs be heard – changing the system

We are an operating unit and we should let our needs be heard so that they may be considered when the system is changed. Several ABC (Activity Based Costing) analyses were carried out in 1998 at CERN. Was this because one wanted to see if the method could/should be applied, giving a better cost control, or was it just to try to give a frozen picture of some activities that one expected to cost too much? If the latter is the main reason, then it is assumed that the financial system does not provide the managers with adequate information

6 CONCLUSION

CERN's existence depends on the Member States' contribution and has to assure its funding. There is however no contradiction between meeting the external demands for information to secure the funding and a better internal cost control. In fact one is obliged to do this as the resources are more scarce each year.

This paper underscores the importance of three basic things:

1. Allocation of costs to the correct cost centres and activities.
2. Increased awareness of how the financial system works.
3. Considering the needs of the operating units when the financial system is developed.

1 + 2 + 3 = Correct and accessible information, better decisions and management !

Figure 3 shows how these three factors will contribute to a better cost control and make it easier to manage with even scarcer resources as foreseen for the future.

Information From The Finance System

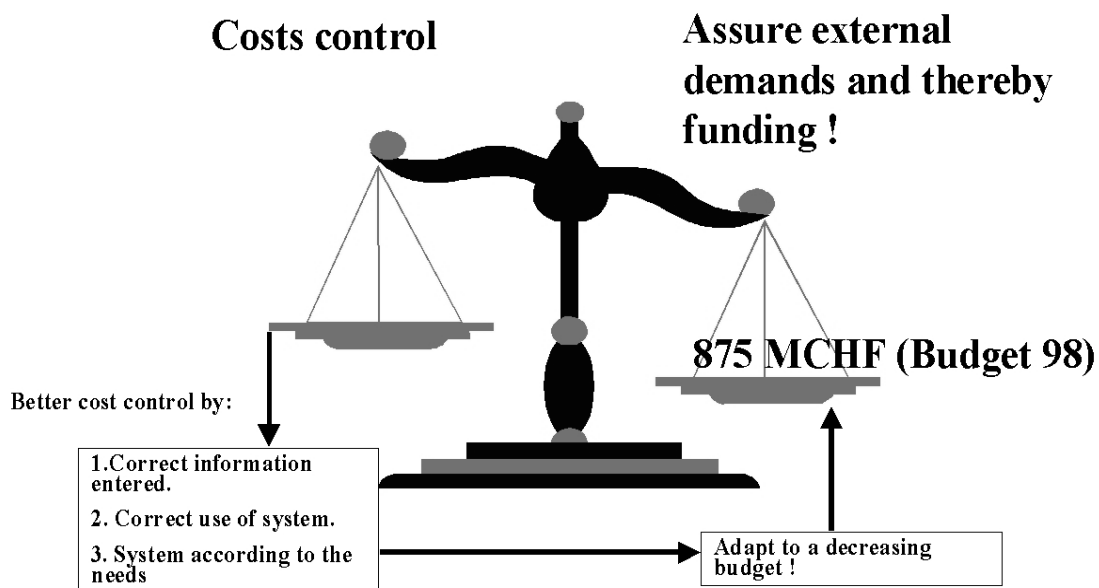


Figure 3: Better use of today's system.